

Message Text

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PAGE 01 STATE 247719

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TO AMEMBASSY QUITO IMMEDIATE

S E C R E T STATE 247719

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FOLTEL REPTD FOR YOUR INFO

SENT SECSTATE INFO BRUSSELS CARACAS DHAHRAN KUWAIT LONDON TEHRAN

ABU DHABI ALGIERS TOKYO FM JIDDA

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S E C R E T JIDDA 6556

EXDIS

FOR SECRETARY KISSINGER

E.O. 11652: GDS

TAGS: ENRG, SA, US

SUBJECT: YAMANI PLANS ON PRICE AND ARAMCO

REF: A) STATE 247438; B) STATE 246926; C) STATE 245313;

D) JIDDA 6043

SUMMARY: YAMANI ASSERTS HIS PLAN WILL BE APPROVED

AT ABU DHABI CONFERENCE BY FOUR ARAB GULF STATES,

PROBABLY IN ABSENCE OF IRAN, AND WILL BRING DOWN

PRICES BY 30 CENTS. ARAMCO PARENTS GENUINELY FEEL

SHAH'S SINGLE PRICE SYSTEM WILL END EXPLORATION.

YAMANI SURPRISED AT LACK OF U.S. REACTION TO SHAH'S

SECRET

SECRET

PAGE 02 STATE 247719

PROPOSALS. IF IMPLEMENTED, SAUDI ARABIA WOULD HAVE

TO SEEK EQUIVALENCY. HE CLAIMS THERE IS A BIG SURPRISE IN STORE FOR THE COMPANIES BUT PROBABLY DOES NOT REALLY HAVE ANY SUCH DRAMATIC ACTION PLAN. HE IS ONLY HOPING TO JOG THEM INTO OFFERING SOMETHING TO WHICH HE CAN THEN REACT. TWO OF FOUR PARENTS (ESSO AND TEXACO) HAD OPPOSED OFFERING YAMANI 100 PERCENT. END SUMMARY.

1. YAMANI TOLD ME LAST NIGHT THAT MEETING IN ABU DHABI NOV 12 WILL SET NEW, LOWER POSTED PRICES AND HIGHER GOVERNMENT TAXES AND ROYALTIES. THE TWO ARE TO BE ADJUSTED TO GIVE THE PRODUCING GOVERNMENTS THE SAME INCOME PER BARREL AS THEY HAVE AT PRESENT.

2. ALL PERSIAN GULF PRODUCERS WERE INVITED TO ATTEND. THE IRANIAN MINISTER REPLIED THAT HE COULD NOT COME; WHEREUPON THE SAUDIS INVITED THE DEPUTY MINISTER "OR ANYONE ELSE THE IRANIANS WANTED TO SEND." AS OF LAST NIGHT THEY HAD RECEIVED NO REPLY. THE IRAQIS HAVE ALSO NOT REPLIED. THE MEETING THEREFORE MAY BE LIMITED TO SAUDI ARABIA, KUWAIT, ABU DHABI AND QATAR. YAMANI THOUGHT THAT ALL THESE WOULD AGREE TO THE SAUDI FORMULA. HE THOUGHT THAT THIS WOULD REDUCE THE PRICE TO CONSUMERS BY ABOUT 30 CENTS (REF D), BY REDUCING COMPANY PROFIT BY THAT AMOUNT.

3. YAMANI ALSO SAID HE WAS AMAZED AT THE LACK OF OFFICIAL AMERICAN REACTION TO THE SHAH'S UNITARY PRICE SYSTEM. FIRST, THE PRICES THE SHAH HAD USED WOULD RESULT IN SUBSTANTIAL INCREASES IN GOVERNMENT TAKE, THEREFORE BY CORRESPONDINGLY INCREASES IN COSTS TO THE CONSUMERS; SECOND, IT WOULD BE EQUIVALENT TO NATIONALIZATION WITHOUT COMPENSATION. (COMMENT: AS THE YAMANI PLAN PROGRESSES - AND I THINK HE INTENDS IT TO PROGRESS BY FURTHER REDUCTIONS IN POSTED PRICES AND INCREASES IN TAXES UNTIL SOME NEW RELATIONSHIP WITH ARAMCO IS WORKED OUT - THE DIFFERENCE BETWEEN BUY-BACK OIL AND EQUITY OIL WILL NARROW. THE ULTIMATE WILL BE WHEN THE DIFFERENCE IS ZERO, WHEN YAMANI'S PLAN WILL COINCIDE WITH THE SHAH'S
SECRET

SECRET

PAGE 03 STATE 247719

UNITARY PRICE PROPOSAL.) YAMANI SAID HE WAS ALSO SURPRISED AT THE LACK OF ANY OPEN COMPANY COMMENT ON THE SHAH'S PLAN; HE SAID THEY COMPLAINED PRIVATELY AND BITTERLY ABOUT THIS. (COMMENT: THIS IS TRUE. THE ARAMCO PARENTS WHO HAVE JUST COMPLETED A MEETING IN DHAHRAN WERE EXCORIATING IN THEIR COMMENTS ABOUT THE SHAH'S PLAN. THEY SAID IT WOULD, IF ADOPTED, END EXPLORATION ACTIVITY AROUND THE WORLD.)

4. EITHER GREENWALD OR JUNGERS GOT SOMETHING GARBLED (PARA 2, REF C). YAMANI DID NOT RPT NOT SAY THAT SAUDI ARABIA WAS ABOUT TO ESTABLISH A SINGLE PRICE SYSTEM NOW. HE SAID THAT THE CIRCUMSTANCES IN SAUDI ARABIA WERE VERY DIFFERENT FROM THOSE IN IRAN; THAT THERE WAS MUCH OIL STILL TO BE DISCOVERED AND DEVELOPED IN SAUDI ARABIA AND A FIXED PRICE SYSTEM WOULD NOT RPT NOT BE SUITABLE FOR THE KINGDOM. NONETHELESS, GIVEN THE POLITICAL REALITIES OF THE GULF, AND GIVEN THE AGREEMENT WITH ARAMCO, SAUDI ARABIA WOULD HAVE TO GET WHATEVER IRAN GOT, OR THE EQUIVALENT. AND IF THE EQUIVALENT WERE NOT PRESENTED BY THE COMPANIES, SAUDI ARABIA WOULD THEN GO ALONG WITH THE SHAH'S FORMULA.

5. YAMANI TOLD ME LAST WEEK THAT THE COMPANIES WERE INFOR A "BIG SURPRISE" SOON. HE REFUSED TO TELL ME WHAT IT WAS AS I WOULD, HE SAID, PASS IT ON TO ARAMCO. I TOLD HIM HE WAS RIGHT; BUT ASKED IF IT WOULDN'T BE BETTER TO LET THE COMPANIES KNOW WHAT WAS IN STORE FOR THEM? WOULDN'T IT BE BETTER TO ENCOURAGE THEM TO COME UP WITH SOME ALTERNATIVE PROPOSAL? HE SAID THEY HAD BEEN GIVEN ENOUGH TIME ALREADY.

6. I DID PASS THIS SKETCHY BIT OF INFORMATION TO THE COMPANIES IN NOV.; I ALSO TOLD THEM YAMANI WAS SURE I WOULD DO SO, AND HE WAS PROBABLY CONSCIOUSLY USING ME TO JOG THEM INTO INTRODUCING SOME PROPOSAL FOR ACTION. I ALSO TOLD THEM I THOUGHT YAMANI DID NOT RPT NOT HAVE A PLAN FOR DRAMATIC ACTION AGAINST THE COMPANIES (APART FROM THE NEW PRICING FORMULA WHICH HE HAD SAID EARLIER WOLD SHOW THE COMPANIES WHAT
SECRET

SECRET

PAGE 04 STATE 247719

HE COULD DO IF HE WANTED) (COMMENT: YAMANI RARELY ACTS, HE REACTS TO PROPOSALS MADE TO HIM.)

7. JUNGERS (PLEASE PROTECT COMPLETELY) TOLD ME BEFORE MY MEETING WITH THE PARENT COMPANY REPRESENTATIVES THAT THEY WERE CONSIDERING SENDING A LETTER TO YAMANI, ACCEPTING IN PRINCIPLE, 100 PERCENT SAUDI OWNERSHIP OF ARAMCO PENDING RESOLUTION OF CERTAIN WELL-DEFINED PROBLEMS. HE SAID HE THOUGHT MY "MESSAGE" FROM YAMANI WOULD JOG THEM INTO SENDING THE LETTER. MOBIL AND (SURPRISINGLY) STANDARD OF CALIFORNIA WANTED TO DO SO. TEXACO AND (ALSO SURPRISINGLY) ESSO WERE STILL OPPOSED. EVIDENTLY THE COMPANIES HAVE DECIDED TO MOVE (REF C).

8. WITH REFERENCE TO UPCOMING MEETING OF ARAMCO
PARENTS IN DEPARTMENT (REF B), WOULD APPRECIATE
RECEIVING THE DEPARTMENT'S VERSION OF THIS MEETING
BEFORE RECEIVING THE INEVITABLE COMPANY VERSION.
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